

SUBJECT: Property taxation

COMMITTEE: Ways and Means: favorable, with amendments

VOTE: 8 ayes--Berlanga, T. Garcia, Grant, Harrison, G. Hill,
Jackson, Peveto, Sharp

3 nays--Davis, Schlueter, Bock

0 present, not voting

2 absent--Browder, Wright

SENATE VOTE: (Motion to suspend regular order of business)
17 ayes, 7 nays (Andujar, Kothman, Mauzy, Patman, Snelson
Vale, Williams)

WITNESSES: NONE

DIGEST: This bill enacts a Property Tax Code. It makes numerous substantive changes in property tax laws, as well as reorganizing the laws that are retained. The following are the major changes proposed in the bill:

- The bill creates an Appraisal District in each county. The district will appraise property for each taxing unit in the county, except for the county itself. (Committee Amendment #10 allows water districts to have their own appraiser.) In place of a board of equalization, each district will have an Appraisal Review Board.
- Assessing and collecting taxes will still be done by the individual taxing unit. However, voters in any district or taxing unit may petition for an election to consolidate assessing or collection.
- The Appraisal Review Board may challenge actions of the appraisal office. Taxing units and individual taxpayers may challenge decisions of the Appraisal Review Board. Appeals must be taken to district court where the Appraisal Review Board is located.
- For a taxpayer's appeal to be sustained, he/she must prove that the property in question is appraised at more than the average amount that properties of equal are appraised at in the district.
- Each taxing unit must choose an assessment ratio for each year by December 31 of the previous year. The ratio may be decreased during the year, but may not be increased without notice to each taxpayer. (HB 2170, which bans the use of assessment ratios, passed the House on second reading on May 21, 1979.)

DIGEST
(continued)

- The original bill set the assessment ratio for the state ad valorem tax at 16%. Committee amendment #3 changes this ratio to .0001 percent. The effect of this would be to all but eliminate the tax.
- The bill changes the procedures for "truth-in-taxation" notice from those adopted in HB 18 last summer. The most significant change is that notice must be given of any increase over the level determined to be the "effective" tax rate; current law requires notice only for increases of more than 3% over the "effective" rate.
- The bill establishes procedures for rollback elections on local property tax increases. These procedures have a number of differences from the ones approved this session in HB 3. (HB 3 has passed the House and is in Senate committee.) HB 3 requires a petition by 25% of the registered voters; SB 621 requires the lesser of 10% or 10,000. HB 3 requires petition signers to present their voter registration certificates; Committee Amendment #5 to SB 621 deletes this requirement. HB 3 does not require any particular level of turnout at the election for the rollback to take effect; SB 621 originally required that half of all registered voters must vote for the election to be effective. Committee Amendment #4 changes this to 25%.
- The bill increases the penalty for delinquent taxes.
- SB 621 originally required owners of income-producing personal property to file an annual report with the tax appraiser. It allowed the appraiser to demand reports from owners of other types of property. The penalty for failing to report would have been 1% of the appraised value of the property. Committee amendment #6 replaces this section with different language; the amended section does not include any penalty.
- The bill changes the School Tax Assessment Practices Board (STAPB) into the State Property Tax Board (SPTB). SPTB will have all of STAPB's duties, plus added powers.
- The bill makes several changes mandated by HJR 1, including setting procedures for implementing the \$5000 homestead exemption and the \$3000 local option elderly/disabled exemption.
- The bill sets up implementing language for the constitution's old ag-use section (Article 8, Section 1-d). This section will be used to deal with property owners who choose to qualify under 1-d rather than under the new section 1-d-1.

DIGEST
(continued)

- The bill authorizes state aid in the creation of appraisal districts. The original bill ends the aid at the end of 1982, and makes most of the bill's requirements take effect on January 1, 1983. Committee Amendment #2 moves these dates up by one year.
- Amendment #9 deals with the language covering property in the state only temporarily. Please see HSG bill analyses on SJR 52 (5/12/79; resolution failed to pass) and SB 1007 (5/16/79; bill postponed until 5/24) for information on this subject.
- Amendment #11 deals with property used for religious purposes. Please see HSG bill analyses on HB's 2018 and 2019 (5/21/79) for information on this subject.

PRO: The present Texas property tax system is impossible to defend.

Polls show the property tax is the most disliked tax in the United States, and the experts agree with public opinion. They say it is the most unfair tax in the nation.

"One searches in vain for one of its friends to defend it intelligently," wrote Jens. P. Jensen in his authoritative 1931 history of the property tax in the United States. "Should some prosecuting attorney drag the tax as a culprit before a bar of justice, he would be embarrassed by the abundance of expert evidence against it."

The system is an administrative nightmare of inefficient, overlapping bureaucracies, run by untrained officials. But even the most honest, well-trained tax assessors find it almost impossible to obey or even make sense of the state's topsy-turvy laws.

"...The tax, as it is administered under present laws, is a travesty of the right guaranteed under our constitution that 'Taxation shall be equal and uniform'," said the Commission on State and Local Tax Policy.

Here are some of the principal problems in Texas:

- A single piece of property is now appraised by as many as four or five overlapping taxing units, often at widely varying values. This causes a great waste of money. Common sense says each piece of property has one value and that one good tax office could find it better than several bad ones.

PRO
(continued)

--Within taxing jurisdictions, the quality of appraisals varies widely. It's not fair for owners of identical houses to pay widely different tax bills. --

--Some classes of property are taxed unfairly compared to other classes. Homeowners are the principal victims, but many businesses and industries also suffer. What the system steals from these taxpayers, it awards to others--those lucky or influential enough to have their property valued at a lower proportion of its real value, if it's on the tax rolls at all.

--Yet, despite the obvious inequities, taxpayers can rarely beat the system. The courts condemn the illegality of the system, but do little to correct it.

SB 621 will bring order, efficiency, and greater justice to the Texas property tax system. Multiple appraisals will largely be eliminated. Uniform procedures will be applied statewide. Officials will have to meet standards of training. And citizens will be allowed to appeal.

Local jurisdictions will keep control of their tax rates and have a voice in the administration of the district appraisal offices.

Statewide uniformity in appraising property will also make it much easier to reform and administer the school finance system.

The rollback provision will eliminate the only possible reason for opposing the bill--the fear that it would lead to tax increases. The rollback language in this bill is a reasonable compromise. It makes it easy to get a referendum on the ballot, but it makes it hard to pass one. Requiring a 25% turnout for the election to have effect will ensure that the rollback is supported by a substantial portion of the population.

The deletion of the penalties for failing to report is also a good idea. The last thing we need is to make it a crime to fail to render property to the assessor.

CON:

There are problems with the property tax, all right, but this proposed cure is worse than the disease.

First, the real way to reform the system is to upgrade the appraisal profession. Requiring the training and upgrading the standards for appraisal offices is a good idea. The appraisers should be allowed to regulate themselves.

But the bill goes much further. It takes away much of the local control over tax offices and gives it to a Big Brother state agency. Local taxation in Texas has historically meant local appraisals. This bill violates that principle.

Single appraisals may sound good in principle, but in practice they may be dangerous. Several appraisals give a taxpayer a mathematical chance of coming out even. But a bad single appraisal will mean high taxes from every jurisdiction. This bill will cause widespread tax increases.

The proposed districts are unworkable, especially in metropolitan counties with hundreds of thousands of parcels of property. No one has paid any attention to how much money it will take to keep up with all the property in Harris County, for example. Are we sure a single agency can even do the job as well as the separate tax offices are doing it now?

The bill won't save much money, if any. Many taxing units already pool their resources, where feasible. Local tax units can keep up with changing local conditions better and should be allowed to join the consolidated districts on a local option basis.

The bill won't equalize tax burdens. Some districts are simply wealthier than others.

The rollback provisions are too restrictive. If it is true, as supporters of this bill claim, that the bill won't be used to increase taxes, then there is no reason to fear rollback elections. The requirement of a 25% turnout is too strict. Local elections rarely get that large a turnout.

ALTERNATE
CON:

This bill is supposed to offer tax reform, but many of its reforms go only half way. The bill has been severely weakened over the years. For example, an earlier draft required disclosure of the sales price of all real property. Many states have this requirement, which gives assessors invaluable information about the actual market values of properties. How can assessors possibly determine the "market" value of properties if they are denied knowledge of actual sales prices?

Other changes also weaken the bill's effect. The penalty for failing to render property is a good idea. Taxpayers now have no incentive to report to the assessor the value of their property.

Assessment ratios should be banned. They serve no useful purpose other than to confuse the taxpayer.

The amendment letting water districts appraise their own property should be rejected. It goes completely against the purpose of the bill.

Rollback elections are a poor idea. If we don't like tax increases, the answer is to throw the responsible officials out of office.

Finally, this bill fails to address the basic inequities of the property tax system. It does nothing to put intangibles on the tax rolls. If intangibles were taxed, the burdensome taxes on real property could be reduced.

The property tax is so unfair that even the reforms in this bill can't save it. It's time to replace it with a more equitable tax.

COMMENTARY:

The bill's largest fiscal impact would be its effect on the state ad valorem tax. Committee Amendment #3 reduces the assessment ratio to be used in collecting the tax from 16% (which would have produced about the same amount of money as is currently collected) to .0001%.

SJR 7 would repeal the state property tax.

The Legislative Budget Board estimates that administration of the Property Tax Code will cost the state a total of \$7 million in new spending over the next three years. Most of this cost will be state payments to help set up appraisal districts. However, the LBB also estimates that the consolidation of tax offices mandated by the bill will save local governments over \$6 million a year once the bill is fully in effect.

COMMENTARY
(continued)

Earlier versions of the Property Tax Code incorporated all tax offices, including county ones, into the appraisal districts. Therefore, there would have been only one tax office per county. An Attorney General's opinion, however, held that the county commissioners courts have the constitutional right to act as a board of equalization. Therefore, SB 621 does not consolidate county tax offices into its appraisal districts.

HJR 98 by Criss removes the county commissioners courts' right to equalize county taxes. It has passed both Houses, but in different forms. It also mandates that the Legislature require a single appraisal of each piece of property. This amendment would therefore require inclusion of the counties in the appraisal districts. (See HSG Daily Floor Report of 5/7/79).

HB 1843 by Bush is implementing language that would remove the county commissioners' authority to act as a board of equalization. It has been postponed until 5/24. (See HSG Daily Floor Report of 5/19/79).